

FY 1998

ACCOUNTABILITY

# *Report*



U.S. Department of Housing and Urban Development

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## THE SECRETARY'S MESSAGE

I am pleased to present the Department of Housing and Urban Development's (HUD) third annual Accountability Report. This report documents HUD's improvement in program performance and financial accountability during Fiscal Year 1998.

When I became Secretary two years ago, I said HUD needed to become a stronger force for improving America's cities, and that we needed to help create critically needed jobs and accelerate the growth of homeownership. Our first task was to restore public trust in the Department. We had to prove to taxpayers that HUD is a competent and reliable steward of their investment. I am proud to say that our HUD 2020 Management Reform Plan is restoring the public's trust by correcting management deficiencies and cracking down on those who misuse taxpayers' dollars.

With the enactment of the FY 1999 budget – HUD's best budget in a decade, including landmark measures that transform public housing, create housing assistance vouchers for 90,000 families, and enable more families to get FHA mortgages to become homeowners – the American public is beginning to reap the rewards of our difficult, two-year long effort to reform management and restructure the HUD organization.

Reform of HUD's financial management has been one of the most significant changes made within the Department. I am very pleased to report that – for the first time ever – HUD's consolidated financial statements have received a clean (unqualified) opinion. This achievement is especially noteworthy because, just three years ago, HUD's auditor was unable to render any form of opinion and issued a disclaimer on the accuracy of the data supporting HUD's financial statements. Nevertheless, while critical improvements have been made in our financial and management control areas, we recognize that more needs to be done. We are committed to resolving HUD's remaining management deficiencies.

During FY 1998, HUD completed a comprehensive reorganization, developed and deployed several major new financial management systems, and undertook carefully crafted staffing reforms. Some of the more visible organizational changes include:

- The consolidation of similar kinds of work, formerly performed in 81 field offices, into a handful of regional or national Centers. The establishment of these "back-office" Centers has increased efficiency, made financial and administrative operation more effective, and freed up resources.
- The creation of a core of Community Builders who will connect clients and communities across America to HUD's program resources. Community Builders – the Department's most visible and active representatives to the public – are responsible for helping communities identify needs and locate the HUD funds and services they require. With the creation of Community Builders, the Department has, for the first time, separated its customer service functions from its program monitoring and enforcement functions, which are now assigned to Public Trust Officers. Prior to HUD 2020, these responsibilities were inappropriately performed by the same person – an impossible task that too often left little focus on program monitoring.
- The establishment of department-wide cross-cutting functions, such as centrally managed assessment and enforcement, which provide HUD with critical assessment data and centralized enforcement capabilities for the first time in its history.

Clearly, HUD has made significant strides over the past year. We recognize that effective management and financial accountability are the cornerstones of mission accomplishment, and we are firmly committed to do our part to restore the public's faith in government. With the support of the Administration and the Congress, we will continue to make credible progress and improve the management of the Department's programs.



Andrew Cuomo  
Secretary

March 29, 1999



I am pleased to present the Department of Housing and Urban Development's Accountability Report for Fiscal Year 1998. This is the third year that HUD has served as one of the pilot agencies preparing Accountability Reports. This report is part of a Government-wide effort to streamline financial reporting by including summary information (such as reporting under the Federal Managers' Financial Integrity Act, the Secretary's Audit Resolution Report to Congress, and Debt Collection reporting) previously included in several separately issued reports.

During FY 1998 we made significant improvements in financial management, most notably, obtaining the first unqualified audit opinion in the Department's history. Other financial management improvements relate to: (1) consolidating accounting operations; (2) improving management controls; (3) coordinating the budget process; and (4) increasing system integrity. These areas are discussed in greater detail below.

## Audit Opinion

I am pleased to state that FY 1998 marks the first year in which the Department's consolidated financial statements received an unqualified opinion.

The Department's prior year audit opinion was qualified because Federal accounting standards were not followed with regard to mortgage insurance programs. These standards, as they relate to loans and loan guarantees, are designed to more accurately measure the cost of Federal credit programs. Subsidy costs are to be estimated based on the present value of projected disbursements for costs associated with loan defaults and guarantees, net of the present value of estimated collections for insurance premiums and claim recoveries. This accounting standard serves to account for the costs of such programs in conformity with the way agency budgets are prepared.

Significant effort was undertaken to complete our financial statements and correct this qualification. The Department established several task forces and developed timelines to ensure that all the steps were accomplished to meet our objectives. Bi-weekly meetings were held to evaluate our progress in preparing the statements and obtaining the unqualified opinion. As a result, the prior year audit qualification issue was completely addressed,

a more accurate process for determining the costs of the Department's credit programs was developed, and our financial statements now receive an unqualified opinion.

## Consolidating Accounting Operations

During the year we continued consolidating the eleven accounting offices around the country into one location to improve the efficiency of operations, reduce duplication, and maximize resources. At the close of FY 1998, the seven remaining field accounting offices were closed. All accounting functions performed within these offices were consolidated into the Ft. Worth Accounting Center. We anticipate moving all non-FHA and Ginnie Mae accounting transactions performed in Headquarters to the Fort Worth Accounting Center by the end of FY 1999.

## Improving Management Controls

The Department has made significant progress during FY 1998 in strengthening its Management Control Program. The newly-established Risk Management Division within the CFO office worked closely with program offices to prepare ten Front-End Risk Assessments (FERAs) for seven new centers established under HUD's 2020 program and for three of HUD's programs. Seven of these FERAs were completed and received approval from our office; the remaining three are being revised by the program administrators based on comments received from the Risk Management Division.

During FY 1998, the CFO office completed training for 1,100 of the Department's managers and supervisors to reaffirm their responsibilities for implementing and assessing management controls within their area of responsibility. The training emphasized the concepts of risk management along with a framework and a methodology for making management controls and monitoring a part of the managers' and supervisors' functional responsibilities.

The Risk Management Division revised the Departmental Management Control Program Handbook. The handbook was modified to reflect HUD's current organization and related management responsibilities. The handbook provides risk assessment

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guidance that HUD managers and supervisors are to follow to enable them to provide the annual certification of reasonable assurance for the Federal Managers' Financial Integrity Act process.

FY 1998 included other significant improvements in management controls, such as the creation of a risk evaluation database which is used to identify programs needing special risk reviews. The database includes information relative to program funding, the dates of GAO or OIG audit reports, and management reviews. Those programs with the greatest level of risk to the Department will be targeted for special risk assessment/management reviews during FY 1999.

During FY 1998 we made significant progress in addressing the material weakness relating to HUD's contracting process. This process was declared a material weakness in FY 1997, due to ineffective procurement planning, deficient needs analysis, poor cost estimating, and inadequate contract monitoring. A number of improvements were made to the contracting process during FY 1998, including the hiring of a Chief Procurement Officer who oversees all aspects of procurement; establishment of a Contract Management Review Board to review the plans and status for all significant procurements; and the designation and training of full-time Government Technical Representatives (GTRs) in the offices with the most significant contract activity (sixty GTRs were designated and trained during FY 1998). As a result of these actions, this material weakness was downgraded to a management concern during the year.

### Coordinating The Budget Process

Budgeting, strategic planning, and financial management are critical to HUD's success. In the past, these functions were independent, fragmented and disjointed, preventing clear accountability and necessary coordination. In 1997, the Budget Office was consolidated into the CFO office and became fully operational during FY 1998.

Specific results include the submission of a timely and accurate budget and financial plan for the President's FY 2000 budget; the largest budget increase for the Department in the past ten years; the development and timely submission of the

Departmental Strategic Plan; and the development of a revised Annual Performance Plan. The Performance Plan includes performance and output measures in accordance with the provisions of the Government Performance and Results Act and linked such measures with our strategic goals and with our program budget estimates.

### Increasing System Integrity

HUD made significant progress to improve its financial management systems compliance during FY 1998. The number of non-conforming systems decreased significantly, from 85 non-conforming systems in FY 1996 to 38 non-conforming systems last year, and down to 28 as of the end of FY 1998. More importantly, the major systems used to prepare the consolidated financial statements relating to our grant, loan and subsidy programs are in compliance.

The Department has also deployed for the first time a new compliant standard general ledger, effective for FY 1999 transactions.

HUD's Year 2000 (Y2K) activities are now in the final stages. As of February 12, 1999, HUD had certified that 100% of its systems were Year 2000 compliant with one system left to be replaced. Regarding HUD's progress in being Y2K compliant, Congressman Horn's Subcommittee on Government Management, Information, and Technology awarded HUD a grade of A-.

FY 1998 was a year with significant financial management accomplishments. It is clear that we have come a long way over the last several years in improving financial management within the Department. The achievement of an unqualified opinion is a key accomplishment and positions the Department for even better accomplishments in the future.

Very respectfully,



Richard F. Keevey  
Chief Financial Officer

March 13, 1999